

IRS News Release

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Treasury, IRS Release Report on Improving Voluntary Compliance

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WASHINGTON — The Treasury Department and the Internal Revenue Service (IRS) released today an IRS report addressing the agency's implementation of the 2006 strategy to improve voluntary compliance with federal tax laws. A copy of the report is attached.

The IRS report, "Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance," details steps currently being taken by the IRS, as well as those under development, to address key elements of the "tax gap." The report builds on the seven components of the "Comprehensive Strategy for Reducing the Tax Gap," which the Treasury Department released in September 2006. Those components are:

- Reducing Opportunities for Evasion
- Making a Multi-Year Commitment to Research
- Continuing Improvements in Information Technology
- Improving Compliance Activities
- Enhancing Taxpayer Service
- Reforming and Simplifying the Tax Law
- Coordinating with Partners and Stakeholders

In each of these areas, the report sets out compliance objectives and initiatives, along with targeted completion dates, that the IRS is implementing to improve tax compliance over the next several years.

Detailed information is provided on each step currently being taken to reduce opportunities for tax evasion, leverage technology and support legislative proposals that, as implemented, will improve compliance. At the same time, the report reaffirms that taxpayer rights must be respected and burdens on compliant taxpayers must be minimized. The report also presents an outreach approach to ensure all taxpayers understand their tax obligations. Additionally, it recognizes the importance of having a multi-year research program that will assist in understanding both the scope of and reasons for noncompliance.

Full implementation of the initiatives outlined in the report will have a positive effect on the rate of voluntary compliance. The report reflects the commitment of the IRS to

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apply its resources where they are of most value in reducing noncompliance while ensuring fairness, observing taxpayer rights, and minimizing the burden on taxpayers who comply.

The overall compliance rate achieved under the U.S. revenue system is quite high. For the 2001 tax year, the IRS estimates that over 86 percent of tax liabilities were collected, after factoring in late payments and recoveries from IRS enforcement activities. Nevertheless, an unacceptable amount of the tax that should be paid every year is not, short-changing the vast majority of Americans who pay their taxes accurately and giving rise to the tax gap. The gross tax gap was estimated to be \$345 billion in 2001. After enforcement effects and late payments, this number was reduced to a net tax gap of approximately \$290 billion.

A copy of the Treasury Department's 2006 strategy is available at:

<http://www.treas.gov/press/releases/reports/otptaxgapstrategy%20final.pdf>